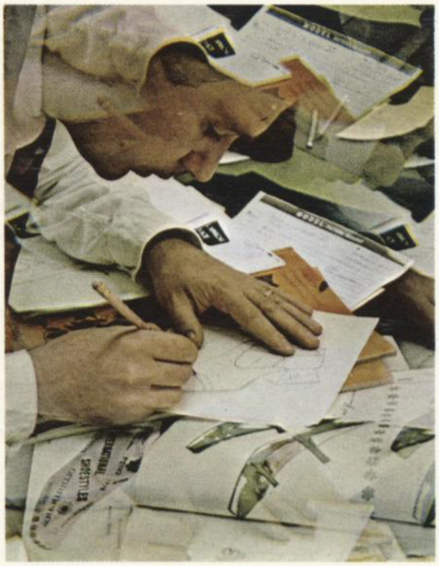
MELVILLE ANNUAL REPORT 1970

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

MILES CHESS KING THOM MCAN C



SCO VANGUARD

VAIN FOXMOOR

OOR CHESS KING

CAN J.F. MC ELWAIN MILES

JARD CVS MELDIS

SCO THOM MCAN CHESS

VANGUARD J.F. MC E

MILES CV

MC ELWAIN MELDISCO TH

N CHESS KING CH

G FOXMOOR MI

RD THOM MCAN MELDISCO F

Thom McAn
14
25
BOYS
SPECIAL
Hose
SPECIAL

Melville Shoe Corporation
annual report 1970

Contents:

4 Highlights
5 Letter to Shareholders
6 Review of Operations
18 Ten Year Financial Summary
19 Financial Review
20 Financial Statements
24 Accountants' Report
25 Directors and Officers

Annual Meeting of stockholders
will be held at the Executive Offices in
New York City on April 13, 1971

chess king
MILES

Melville's Thom McAn, Chess King, and Miles stores (see photo) stretch along the mall in the Kings Plaza shopping center in Brooklyn, New York. The big, new center includes six Melville outlets—those shown plus Consumer Value Stores, Foxmoor Casuals, and Vanguard.

Through its multi-store concept of shopping center merchandising, Melville has substantially increased its market and its growth in the footwear, young men's and young women's apparel, and health and beauty aids fields.

Altogether, Melville, which is a diversified specialty retailer and footwear manufacturer, operates 1,918 stores, 17 shoe factories, and two supplier-plants. There are some 17,500 Melville shareholders and more than 13,700 employees.

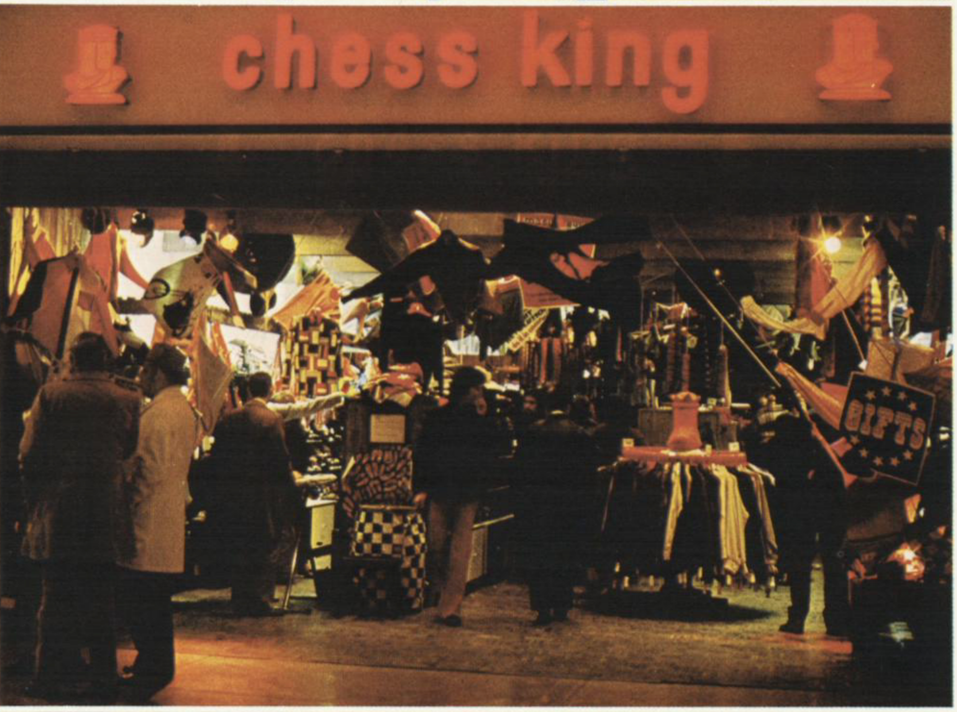
THOM McAN, Melville's largest division, markets America's best-selling family footwear at popular prices. In 1970 Thom McAn opened 65 new stores and closed 36 for a total of 924 throughout the United States, Puerto Rico, and Canada. Plans for 1971 include opening 77 new stores and closing 29 for a total of 972.

Thom McAn
Great Gift Ideas from your Footman
1 4
2 5
3

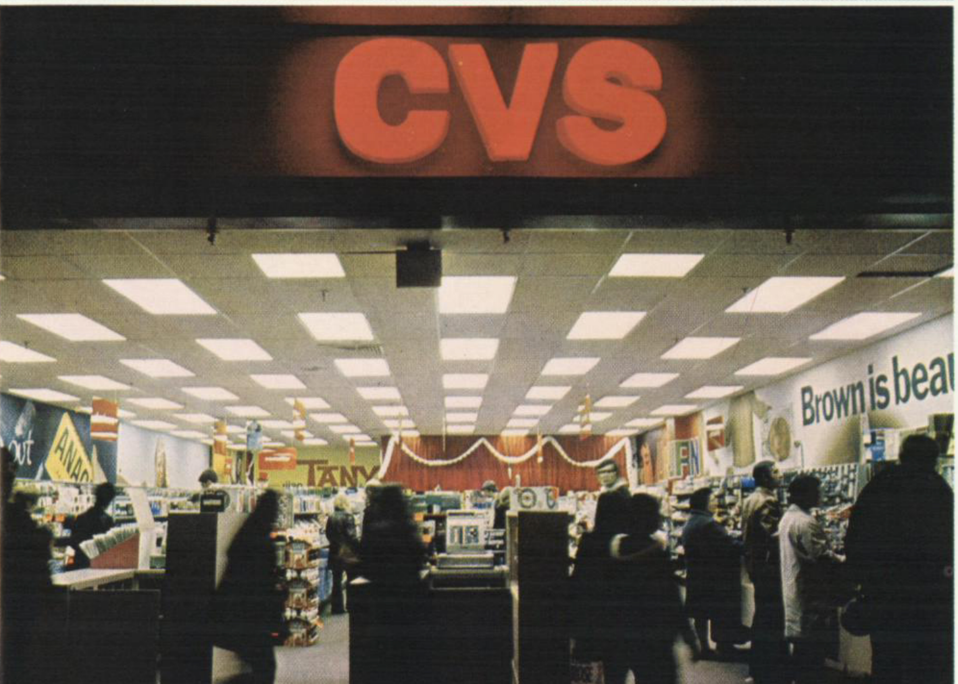
MELDISCO, Melville's leased department discount operation, is one of the largest of its kind in the footwear field. Its greatest growth in 1970 was in the western states with the opening of 40 new departments in that area. Nationally, Meldisco opened 121 new departments for a total of 435. This will increase to 529 in 1971.

MILES, Melville's women's division, styles and prices its footwear and designs its new shops to appeal to the youthful, high-fashion market. To further this concept and improve its national store pattern, Miles closed 23 of its older family stores in 1970, reducing its total outlets to 280, with a further reduction to 271 planned for 1971.

FOXMOOR CASUALS, Melville's young women's apparel chain, combines Foxmoor Casuals, acquired in 1968, and the California chain, Country Casuals, acquired last year. Continuing its rapid national expansion in 1970, the division added 52 stores during the year—including the 12 original Country Casual shops—for a total of 97 and plans to expand to 138 stores by the end of 1971.



CHESS KING, Melville's young men's apparel chain, with its lines of "in" merchandise and lively, colorful stores, was the biggest retailing attraction for teenagers in an increasing number of shopping centers in 1970. Chess King added 54 stores in 1970 for a total of 75. Plans call for 62 more in 1971.



CONSUMER VALUE STORES, the Melville division that sells national brand health and beauty aids at discount prices, expanded its chain of highly identifiable stores by 44 units for a total of 100 at the end of 1970 and plans 30 more in 1971 in New York and other markets.

HIGHLIGHTS

	1970	1969	Percent Change
Net Sales	$438,131,318	$362,491,889	+20.9
Earnings before Federal Income Taxes and Minority Interests	36,754,486	32,917,167	+11.7
Net Earnings	20,818,587	19,049,974	+ 9.3
Dividends on Common Stock	8,653,922	7,261,528	+19.2
Net Earnings Per Share of Common Stock	1.77	1.63*	+ 8.6
Dividends Per Share of Common Stock	.75	.65*	+15.4
Net Earnings as a Percent of Net Sales	4.75%	5.26%	
Cash	11,134,894	16,586,552	−32.9
Inventories	92,246,145	75,908,285	+21.5
Net Working Capital	67,219,785	64,506,527	+ 4.2
Shareholders' Equity	94,962,205	81,676,445	+16.3
Average Common Shares, Outstanding	11,572,840	11,439,042*	+ 1.2
Number of Stores	1,918	1,626	+18.0
Number of Employees	13,700	11,800	

Number of Shareholders: approximately 17,500

* Adjusted for two-for-one stock split on April 14, 1970.

PRESIDENT'S LETTER

In 1970—for the seventh consecutive year—Melville and its subsidiaries set new record highs in sales and earnings.

Earnings reached $20,818,587, a gain of 9.3 percent over the 1969 figure of $19,049,974. Per-share earnings for the average number of shares outstanding were $1.77 in 1970 as compared with $1.63 in 1969, an increase of 8.6 percent.

Sales for 1970 moved up to $438,131,318, a rise of 20.9 percent over the $362,491,889 recorded in 1969.

During the year, Melville opened 369 stores and closed 77 for a net gain of 292 and a year-end total of 1,918. We expect to have 2,185 stores in operation at the end of 1971.

In achieving its record results, despite generally unfavorable economic conditions and intensified consumerism, Melville put added stress on its traditional policy of giving the customer full value for his dollar in the quality of product as well as the intangible benefits gained from style. During the year, the company also gave an even higher priority to improving customer services. Where the customer has always been right at Melville, he was more right than ever in 1970.

During the year, we improved our customer services through the addition of such facilities as the new 456,000 square-foot Thom McAn's Men's Distribution Center opened in October at Auburn, Massachusetts. This large, modern, fully equipped facility will advance Thom McAn's distribution efficiency significantly.

Providing support for its rapid western expansion, the Meldisco division opened its new Los Angeles satellite warehouse and merchandising-advertising office during 1970. In February of 1971 Miles and Meldisco accomplished important operational efficiencies in moving their headquarters and computer facilities from New York City to a new, modern office building in Hackensack, New Jersey.

Customer services were also further enhanced during the year through developments in store design. Thom McAn introduced a new concept in closed-mall stores with self-service facilities that will reduce the amount of space needed and increase productivity per square foot by some 20 percent. Miles has also developed a new small store with a self-service area and colorful, informal fixtures and decor designed to appeal to fashion-conscious young women.

The output of Melville's shoe manufacturing plants reached an all-time high in 1970, despite the general industry decline. A new juvenile footwear factory was opened in Robersonville, North Carolina in July, and the Tifton, Georgia plant, opened in 1968 to produce footwear specifically for Meldisco, more than doubled in size in 1970.

We operated 17 shoe factories at the end of 1970 and two supplier-plants with 10 plants located in New Hampshire, four in North Carolina, and one each in Massachusetts, Tennessee, Georgia, Puerto Rico, and Spain.

Miller Shoes, Inc., women's shoe manufacturer acquired in April, showed good growth during the year. The acquisition of Country Casuals, a California women's apparel chain, was also completed in 1970. Country Casuals was merged with our original women's apparel operation, Foxmoor Casuals. As a result, Foxmoor was able to expand more rapidly, especially in the West, and its management, merchandising, and distribution capabilities were improved.

Consumer Value Stores, acquired in 1969, continued to grow, moving beyond its original New England base into New York and other markets. CVS also initiated a new operation, Consumer Value Laboratories, which will market quality health and beauty aids under its own label.

In July, Lawrence E. McGourty, president of the Thom McAn division; Robert C. Kuhn, president of the Meldisco division; and Richard E. West, president of J. F. McElwain Co., Melville's manufacturing division, were elected to the Melville Board of Directors. The three are also vice presidents of Melville.

As we continue to stress the development of our most important product—customer satisfaction—we look forward to another year of record growth for Melville in 1971.

Francis C. Rooney Jr.

Francis C. Rooney, Jr.
President

February 25, 1971

THOM McAN

Sales—the best measurement of customer satisfaction—continued to climb as Thom McAn remained America's best-selling shoe.

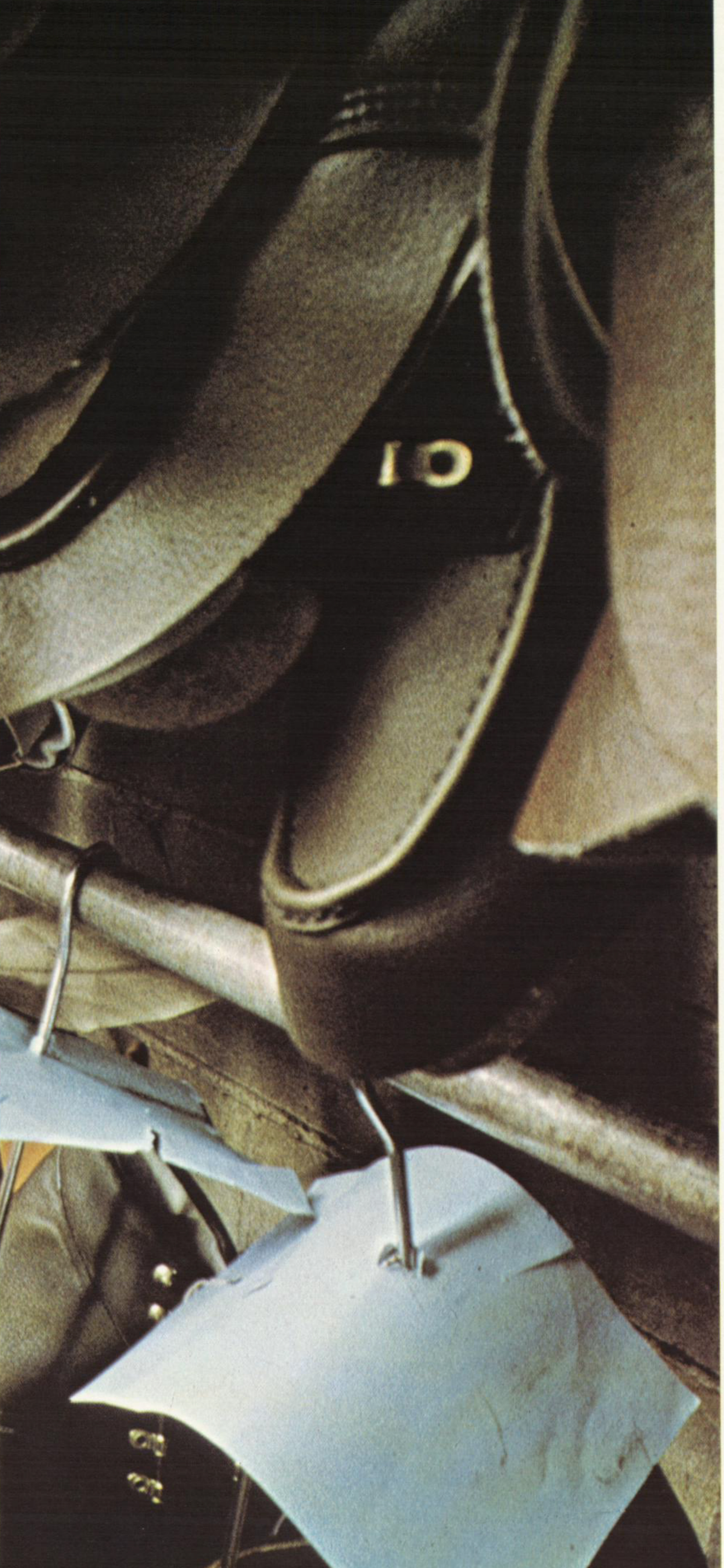
Constantly improving store design resulted in the development of a new Thom McAn enclosed-mall family store. Because of the arrangement of displays, the new, windowless design enables customers to make their own selections, while the smaller space required increases productivity per square foot by 20 percent.

Three new Canadian stores, opened in August 1970, also represent a radical departure in concept. Designed to appeal to the under-25 male and female markets, they are actually high fashion, unisex stores.

Also during the year, Thom McAn inaugurated a Customer Response Card which has already resulted in the liberalization of the adjustment policy, the addition of new sizes and increased emphasis on the Thom McAn Five-Way-Fit program for children's shoes. Customers will also benefit from the improved distribution services resulting from the completion of Thom McAn's new 456,000 square-foot Men's Distribution Center at Auburn, Massachusetts.

In its first year of working without an advertising agency, Thom McAn achieved important creative, economic, and operational advantages with no decline in advertising results. The use of Sunday supplements to advertise women's shoes was increasingly effective and the well received "Little Old Cobbler" television commercial contributed to a record-breaking sale of 30,000 pairs of ROMA II men's shoes in the five days before Christmas.

Major promotional events of the year included the pre-Easter "Love Shines" campaign which involved giving away $120,000 worth of sports equipment and sportswear in promoting patent leather footwear; and the "New Frontiers" back-to-school campaign, promoting country-style boots and granny boots.



MANUFACTURING

The close working relationship between Melville's manufacturing and retailing divisions is of great advantage to our customers. When in the past year, for example, strong consumer interest developed in soft, colorful footwear, Melville's manufacturing division was able to convert rapidly to the new styles which included broader lasts, antiqued leathers, and distinctive ornaments as well as softer, more colorful linings.

Product performance, in the interest of greater customer satisfaction, was further improved during the year through additional expansion of the manufacturing division's laboratory and testing facilities. Laboratory or wear tests are carried out on the footwear manufactured by Melville, as well as that purchased from independent sources, to assure compliance with specifications. New materials are also checked thoroughly against rigid standards before they are accepted for use in Melville footwear.

New materials, better machinery, and the introduction of computer-controlled production in eight plants improved manpower and equipment utilization and decreased manufacturing costs despite higher wage levels.

Volume of Melville factories reached record levels in 1970 although overall industry volume declined to a 15-year low. A new juvenile footwear factory was opened in Robersonville, North Carolina in July. The Tifton, Georgia plant, opened in 1968 to produce injection-molded footwear for the Meldisco division using only man-made materials, was more than doubled in size during 1970 and increased its production to 4,000 pairs a day in order to meet the demand of Meldisco customers for the new footwear. The plant will become the company's largest production unit in 1971.

At the end of 1970, Melville operated 17 factories and two supplier-plants with 10 in New Hampshire, four in North Carolina, and one each in Massachusetts, Tennessee, Georgia, Puerto Rico, and Spain.

MELDISCO

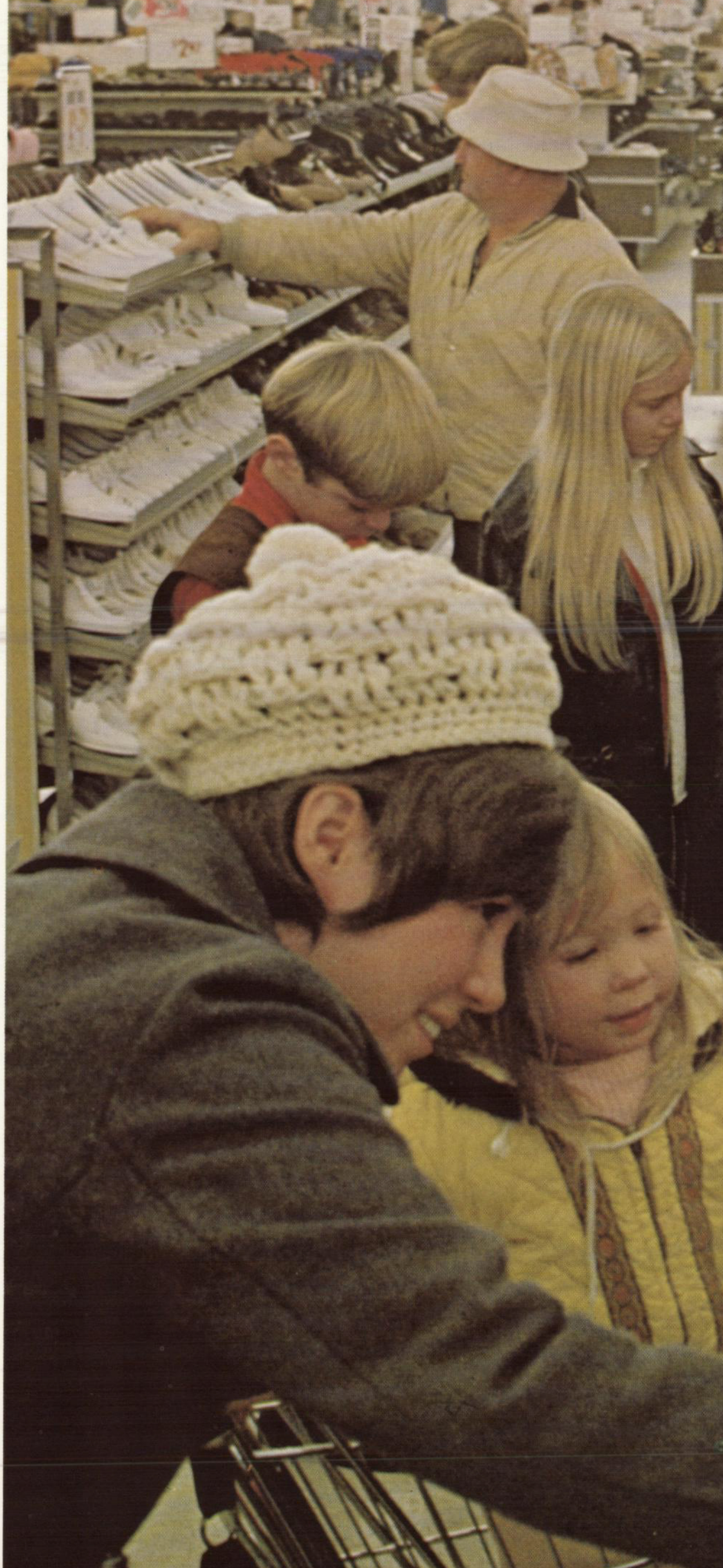
With the advantage of its strong consumer orientation and the appeal of its discount prices and self-service features, Melville's leased-department operation—the Meldisco division—continued its rapid expansion during the general business decline of 1970.

Meldisco's growth was particularly great in the West where operational efficiencies and customer services kept pace with growth as the result of the opening in February of Meldisco's new Los Angeles warehouse and merchandising-advertising office. Serving Meldisco shoe departments in nine western states, the installation speeds up deliveries of fast-selling footwear and enables merchandising and supervisory personnel to become more directly involved in western marketing activities.

Keeping pace with its expansion, Meldisco furthered the training of store-operating teams to staff its new departments. Special emphasis was placed on the development of regional merchandising concepts to meet the special needs of customers in specific areas of the country.

Operations in store management, sales promotion, and inventory and cost controls were strengthened during the year. Management efficiency will be further improved through the move, completed February 1, 1971, of Meldisco's headquarters from New York City to Hackensack, New Jersey, where the division will occupy two complete floors of a new office building in a suburban setting. Computer facilities will also be located at Hackensack.

Improving product lines to meet changing and expanding customer needs, Meldisco significantly increased its importing activities during the year as well as broadening its domestic lines. Meldisco buyers cooperated with the Melville manufacturing division in the development of injection-molded footwear, made of non-leather materials and priced below $10 in the men's dress line and below $6 in the boys' line. Other new lines are planned.



4.94

MILES

Another Shipment Just

MILES

In 1970, Miles, the women's footwear division of Melville, concentrated on meeting the footwear needs of the fashion-conscious, younger woman. Older, family-oriented shops were closed down, and merchandise was further upgraded.

The average Miles sale is now in the $9 to $13 range as compared to the $7 of a few years ago. To encourage customers to browse and make their own selections, informality is stressed along with youth and high fashion in the design of the new Miles stores through such innovations as self-service areas, conversation pits, and floor pads for seating.

Miles buyers cover the world markets in search of new ideas and new styles. Sometimes Miles takes an entire line of a foreign producer; or, as in one case, retools a factory to achieve desired style and quality.

Accounting and inventory systems have been improved. New operational and distribution efficiencies with resultant gains in customer service will be accomplished through the transfer of Miles headquarters from New York to Hackensack, New Jersey and the shift of warehouse operations to Leominster, Massachusetts.

VANGUARD

Vanguard's footwear, mostly imported from Europe and priced in the $20 to $50 range, is strictly avant-garde, appealing primarily to the young male taste-setter. Vanguard's small, dignified and quiet shops help contribute to the customer satisfaction gained from the style, quality, and choice of merchandise.

Other important elements of Vanguard's coordinated merchandising package include the close attention Vanguard salesmen give their customers as well as such programs as the Customer Return Questionnaire which offers customers the chance to contribute comments and ideas on all phases of Vanguard's operations.

FOXMOOR

The merger of Melville's two women's apparel companies, Foxmoor Casuals and Country Casuals in 1970, added 15 Country Casual shops to the Foxmoor chain, furthering its national expansion. Country Casual's California distribution center aided Foxmoor's western expansion, while the management depth of the women's apparel division was considerably increased by the joining of the two companies.

Foxmoor Casuals specializes in the latest youthful fashions from American and foreign designers. The informal atmosphere of the chain's shops encourages customer "browsing." Sales personnel receive intensive training in advising and assisting customers.

Foxmoor's merchandising, distribution, and administrative efficiency will be increased through its move into a larger facility in Brockton, Massachusetts.

CHESS KING

In its third year, Melville's young men's apparel division, Chess King, continued to grow as it moved westward, opening new stores in Texas, Arizona, Utah, and California.

Chess King's boldly decorated shops with their ramps, stages, and multi-level displays, feature the merchandise teenage boys—and girls, too—want most. Current best-selling items include jeans with ecological appliques; old-fashioned bib overalls made of such materials as corduroy and velvet; skinny-rib knit shirts; and a variety of elaborately beaded and decorated peasant and Western style shirts and pants with the currently popular "hand-made" look.

An intensive field-manager recruiting program has helped support Chess King's rapid expansion along with the introduction of a computerized sales and inventory reporting system. Chess King's planned move into Worcester warehouse space vacated by Thom McAn will further increase distribution capabilities.

chess king

CONSUMER VALUE STORES

Melville's Consumer Value Store division, which sells health and beauty aids at discount prices, opened 44 stores during 1970.

An important reason for the rapid growth of CVS is that its concept suits the needs of the times. Bargain-conscious consumers can find what they want in quality, price, and service at the CVS stores.

The CVS retailing concept—specialization and depth within product lines—responds to steadily growing consumer demand for a greater choice of products, as well as a greater expertise on the part of the seller. CVS groups products by category within a simple, well organized store format that makes buying health and beauty aids easier and, of course, more economical than in the conventional drug store. CVS stores are conveniently located in residential neighborhoods as well as in shopping centers.

The CVS personnel training program stresses product information and a helpful, caring attitude toward customers. In its relationship with its employees CVS emphasizes self-improvement and the career opportunities offered by the organization.

During the year 1971 CVS is instituting a unit pricing program through which customers can determine exactly how much they are spending—and saving—on products they buy at CVS stores.

Moving into a new phase of its activities in the past year, CVS established Consumer Value Laboratories which will supply CVS stores with a line of health and beauty aid products carrying its own label. The products will be of comparable quality, but will cost considerably less than nationally advertised brands.

In improving the efficiency of its operations during the year, CVS, which includes a distribution as well as a retailing unit, instituted a warehouse/distribution computerized system to maintain its store inventories at optimum levels.

Ten Year Financial Summary

Melville Shoe Corporation
and subsidiary companies

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Results for the Year (000's omitted)										
Net Sales	$438,131	$362,492	$292,972	$258,752	$234,313	$203,545	$195,171	$182,403	$176,448	$165,867
Wages and Compensation	85,662	73,470	64,952	57,279	51,827	46,122	44,305	41,768	41,648	39,619
Taxes — All	25,098	21,222	18,124	15,320	11,797	9,866	10,062	8,192	8,617	8,839
Earnings Before Federal Income Taxes and Minority Interests	36,754	32,917	27,600	23,408	17,633	13,668	12,337	8,462	9,150	11,091
Net Earnings	20,819	19,050	16,228	14,370	11,192	8,418	7,111	4,814	4,987	5,988
Dividends Paid	9,035	7,657	6,416	4,833	3,922	3,281	2,779	4,196	5,050	5,065
Per Share Results of Common Stock*										
Net Earnings	$1.77	$1.63	$1.45	$1.27	$ .97	$ .71	$ .59	$ .38	$ .40	$ .49
Dividends	.75	.65	.55	.40	.31¼	.25	.20	.32½	.40	.40
Taxes — All	2.17	1.86	1.66	1.40	1.07	.89	.91	.74	.78	.80
Book Value	7.39	6.25	5.23	4.34	3.62	3.06	2.59	2.20	2.14	2.05
End of Year Position (000's omitted)										
Current Assets	$118,864	$104,751	$ 85,444	$ 77,352	$ 67,275	$ 61,596	$ 58,702	$ 49,782	$ 50,247	$ 50,432
Current Liabilities	51,644	40,244	29,619	26,119	20,279	18,745	17,273	13,694	15,529	14,495
Current Ratio	2.30	2.60	2.88	2.96	3.32	3.30	3.40	3.64	3.24	3.48
Property, Plant and Equipment (000's omitted)										
At Cost	$ 85,976	$ 71,016	$ 63,283	$ 57,451	$ 53,316	$ 50,361	$ 47,167	$ 47,317	$ 47,100	$ 44,695
Net After Accumulated Depreciation	44,160	32,458	25,391	20,893	18,377	17,350	16,030	17,927	19,441	19,637
Capital Additions	19,364	14,439	8,841	6,409	4,945	4,971	2,046	2,356	3,328	4,610
Depreciation	5,520	4,420	3,824	3,455	3,292	3,148	3,272	3,308	3,346	3,073
Percent to Net Sales										
Earnings Before Federal Income Taxes and Minority Interests	8.39%	9.08%	9.42%	9.05%	7.53%	6.72%	6.32%	4.64%	5.19%	6.69%
Net Earnings	4.75%	5.26%	5.54%	5.55%	4.78%	4.14%	3.64%	2.64%	2.83%	3.61%
Percent Net Earnings to Shareholders' Equity	25.46%	27.70%	27.84%	28.16%	24.41%	19.87%	18.52%	12.64%	13.37%	16.01%
Number of Stores	1,918	1,626	1,474	1,366	1,314	1,275	1,250	1,244	1,249	1,212

*Adjusted to reflect two-for-one stock split on April 10, 1968 and on April 14, 1970.

Financial Review

Earnings. Consolidated net earnings increased 9.3% for the year 1970 amounting to $20,818,587 as compared with $19,049,974 for the year 1969. Earnings per common share increased to $1.77 for the year 1970, an increase of 8.6% over the $1.63 earned the previous year.

The net earnings for the year 1970 were the highest in the company's history.

Sales. Consolidated net sales reached a new high of $438,131,318 for the year 1970, an increase of 20.9% over the net sales of $362,491,889 for the year 1969.

Dividends. The company paid a dividend on common stock of $.75 per share during the year 1970. The quarterly dividend on common stock was increased to $.20 per share in January 1971 from $.18¾ per share paid in 1970. The dividend on an annual rate amounts to $.80 per share compared to $.75 per share paid in 1970.

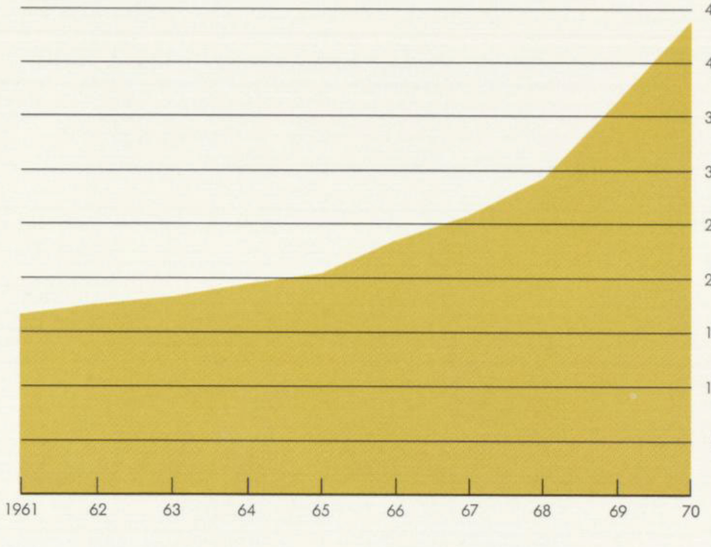
Property, Plant and Equipment. Capital additions amounted to $19,363,691 for the year 1970, as compared to $14,439,383 for the previous year, an increase of $4,924,308. Depreciation charged for the year 1970 was $5,520,372 as compared to $4,419,977 for 1969.

Capital Stock. The shareholders approved on April 14, 1970 a split of the common stock on a two-for-one basis and an increase in the authorized common shares from 10,000,000 to 15,000,000 shares.

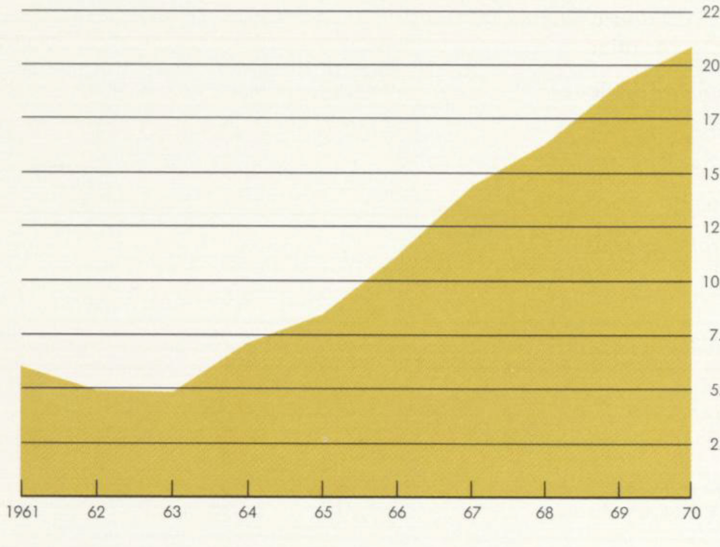
Distribution of Sales Revenue	1970	1969
Received from the sale of products	$438,131,318	$362,491,889
Paid for materials, merchandise and all expenses, exclusive of taxes and other amounts paid to or for the benefit of employees	305,410,076	248,117,028
Remainder	132,721,242	114,374,861
This was divided as follows:		
Wages and compensation	85,662,132	73,469,970
Taxes	25,097,624	21,221,724
Minority interests	1,142,899	633,193
Paid to shareholders or retained in the business	20,818,587	19,049,974

In 1970, after payment for materials, merchandise, taxes, and other necessary expenses, 80% of the balance went to employees and 20% was paid to shareholders or retained in the business.

Net Sales
millions of dollars



Net Earnings
millions of dollars



Statement of Consolidated Financial Condition

as of December 31, 1970 and 1969

Assets	**1970**	**1969**
Current assets:		
Cash	$ 11,134,894	$ 16,586,552
Accounts receivable, less provision for losses	11,885,975	9,619,676
Inventories — at lower of cost (7% valued at lifo) or market, principally by the retail method	92,246,145	75,908,285
Prepaid expenses	3,597,024	2,636,046
Total current assets	118,864,038	104,750,559
Property, plant, equipment and leasehold improvements, at cost:		
Land	2,008,929	2,522,108
Buildings	5,785,516	5,789,372
Machinery and equipment	6,885,508	6,149,184
Store and office fixtures, improvements to leased properties and miscellaneous equipment	71,296,483	56,555,178
	85,976,436	71,015,842
Less accumulated depreciation and amortization	41,816,211	38,557,755
Net property, plant, equipment and leasehold improvements	44,160,225	32,458,087
Unamortized debt discount and expense	139,452	154,128
	$163,163,715	$137,362,774

See accompanying notes to consolidated financial statements.

Liabilities	**1970**	**1969**
Current liabilities:		
Notes payable to banks	$ 1,350,000	$ —
Accounts payable and accrued expenses	42,284,466	32,559,914
Federal income taxes	7,875,815	7,556,682
Current installments on long-term debt	133,972	127,436
Total current liabilities	51,644,253	40,244,032
Long-term debt:		
4⅞ % Debentures, due 1980 (annual sinking fund requirement $600,000)	6,600,000	7,200,000
3½ % Promissory Note, payable in quarterly installments through June 1984	1,669,000	1,773,000
9¼ % Mortgage Notes, payable in monthly installments through October 1989	1,140,991	1,167,846
	9,409,991	10,140,846
Deferred credit (note 2)	775,450	919,957
Deferred Federal income taxes (note 3)	1,347,153	987,582
Lease obligations for closed stores (note 3)	1,198,566	1,409,264
Minority interests in subsidiaries	3,826,097	1,984,648
Shareholders' Equity		
Capital stock (notes 1, 4 and 5):		
Preferred stock, Series B, $4.00 dividend	9,706,600	10,514,600
Common stock	21,995,785	15,663,896
	31,702,385	26,178,496
Retained earnings	63,756,815	57,705,057
	95,459,200	83,883,553
Less cost of common and preferred shares held in treasury	496,995	2,207,108
	94,962,205	81,676,445
	$163,163,715	$137,362,774

Commitments and contingencies (Notes 3 and 6)

Statement of Consolidated Earnings

Years ended December 31, 1970 and 1969

	1970	1969
Net sales	$438,131,318	$362,491,889
Cost of goods sold, buying and warehousing costs	252,000,712	209,906,180
	186,130,606	152,585,709
Store operating, selling, general and administrative expenses	141,707,011	114,315,384
Depreciation and amortization	5,520,372	4,419,977
Interest charges	2,368,913	1,606,505
	149,596,296	120,341,866
	36,534,310	32,243,843
Other income — net	220,176	673,324
Earnings before Federal income taxes and minority interests	36,754,486	32,917,167
Provision for Federal income taxes (note 3)	14,793,000	13,234,000
	21,961,486	19,683,167
Minority interests in net earnings	1,142,899	633,193
Net earnings	$ 20,818,587	$ 19,049,974
Net earnings per share — common stock	$ 1.77	$ 1.63

Statement of Consolidated Retained Earnings

Years ended December 31, 1970 and 1969

	1970	1969
Retained earnings at beginning of year	$ 57,705,057	$ 45,184,181
Add: Net earnings for year	20,818,587	19,049,974
Retained earnings of companies acquired	53,187	1,128,104
	78,576,831	65,362,259
Deduct:		
Cash dividends paid:		
Preferred stock, Series B, $4.00 a share	380,968	395,674
Common stock, $.75 a share; 1969, $.65 a share	8,653,922	7,261,528
Transfer to common stock account of an amount equal to $1 par value per share to give effect to two-for-one common stock split	5,785,126	—
	14,820,016	7,657,202
Retained earnings at end of year	$ 63,756,815	$ 57,705,057

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note (1) Principles of Consolidation: The consolidated financial statements include the accounts of Melville Shoe Corporation and its subsidiaries, which are wholly-owned except for one 80% owned foreign manufacturing subsidiary and certain 75% owned retail subsidiaries.

During 1970 the company issued 52,307 shares and 7,860 shares (15,720 after stock split — see note 4) of its common stock to effect the acquisitions of Country Casuals, and Miller Shoes, Inc., respectively, which have been accounted for as poolings of interests. Prior year figures have not been restated due to the immaterial effect on earnings and financial position.

Note (2) Retirement Plans and Related Deferred Credit: The company's provision under pension plans aggregated $1,152,844 in 1970 and $811,946 in 1969; such amounts include amortization of past service costs, less amortization in equal annual installments to 1978 of a deferred credit representing the amount provided for pensions prior to adoption of funding for all plans.

Note (3) Federal Income Taxes: (a) Deferred Federal income taxes have been provided to reflect the difference in timing of certain deductions for accounting and tax purposes. Such differences arise from (1) depreciation for accounting purposes which is provided on the straight line method based on estimated useful lives as contrasted with use of an accelerated method for tax purposes and (2) accrual of aggregate lease obligations relative to closed stores which, for tax purposes, are deducted as paid. The provision for Federal income taxes charged to earnings includes the net tax effect of such differences, which approximated $350,000 in 1970 and $429,000 in 1969.

(b) In connection with an examination of tax returns of the company and its subsidiaries for the years 1964, 1965 and 1966, the Internal Revenue Service in 1969 questioned the claiming of separate surtax exemptions for the subsidiary companies. Separate surtax exemptions have been accepted by the Service for all years prior to 1964 and, in the opinion of the company, they are allowable under the then existing legislation; accordingly, it intends to contest any disallowance. Pursuant to the Tax Reform Act of 1969, multiple surtax exemptions for controlled groups are being phased out over a six-year transitional period commencing in 1970. If consolidated tax returns had been filed for 1970 and 1969, the approximate reduction in earnings per share would have been $.19 and $.25, respectively.

Note (4) Capital Stock:

Preferred Stock — Authorized preferred stock consists of 200,416 shares of cumulative preferred stock of $100 par value, issuable in series. At December 31, 1970, there were 97,066 shares of Series B cumulative preferred stock issued; such shares are redeemable at the option of the company at par value.

Common Stock — On April 14, 1970, the shareholders approved a two-for-one stock split and an increase in the number of authorized shares of $1 par value common stock from 10,000,000 to 15,000,000 shares. Per share earnings and dividends for 1969 have been restated to give effect to the stock split.

Transactions during the year are as follows:

	Number of Shares	Amount
Balance at beginning of year	5,777,266	$15,663,896
Common stock issued to effect acquisitions (note 1)	60,167	338,250
Transfer from retained earnings of an amount equal to $1 par value per share to give effect to two-for-one common stock split	5,785,126	5,785,126
Excess of par value over cost of cancelled preferred stock held in treasury	—	244,171
Excess of cost over proceeds of common stock held in treasury sold under stock option plans	—	(35,658)
Balance at end of year	11,622,559	$21,995,785

Common stock includes additional capital amounting to $9,066,897, which arose from conversion of 4% preferred stock into shares of common stock prior to redemption of the 4% preferred stock in February 1950 and is included in common stock in accordance with statutory requirements. In addition, common stock includes $962,645 arising from purchases of preferred stock at less than par value, $169,231 attributable to the excess of proceeds received from exercise of stock options over the cost of treasury shares issued and $174,453 arising from acquisitions.

Treasury Stock — During 1970, 3,920 shares of Series B cumulative preferred stock were purchased for $258,640 for sinking fund purposes. Of the preferred stock held in treasury, 8,080 shares were cancelled and eliminated from the authorized shares during 1970, leaving 4,010 preferred shares in treasury at a cost of $264,568. During 1970, 68,019 shares were delivered under the stock option plan, leaving 11,219 common shares in treasury at a cost of $232,427.

Note (5) Stock Option and Stock Purchase Plans: (a) Under a stock option plan for key managerial employees, 422,355 shares of common stock were reserved at December 31, 1970.

Transactions during the year are as follows:

	Number of Shares	Price Range Per Share
Shares under option at December 31, 1969	319,506	$7.625 — $35.875
Add:		
Options granted	16,500	$30.75 — $31.25
	336,006	
Deduct:		
Options exercised	67,487	$7.625 — $29.375
Options cancelled	9,804	$7.625 — $28.687
	77,291	
Shares under option at December 31, 1970	258,715	$7.625 — $35.875

At December 31, 1970, options for 242,215 shares were exercisable and 163,640 shares are available for grant under the plan.

(b) Under an incentive stock purchase plan covering a maximum of 400,000 shares of common stock, key managerial employees may purchase shares of common stock within two years from the date such stock is offered to them. The minimum purchase price is the higher of (1) book value per share as of the fiscal year-end preceding the date of offer or (2) 50% of the fair market value at the date of offer. During 1970, 532 shares offered during 1969 were purchased under the plan. At December 31, 1970, 954 shares offered during 1969 were available for purchase. No shares were offered for purchase during 1970.

Note (6) Commitments: Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amounted to approximately $20,600,000 at December 31, 1970. Such leases will expire on various dates to 2000; however, it is anticipated that as leases expire they will be renewed or new leases will be executed. Total rent expense for the year amounted to approximately $33,700,000.

Statement of Consolidated Source and Application of Funds

Years ended December 31, 1970 and 1969

	1970	1969
Source of Funds:		
Net earnings	$20,818,587	$19,049,974
Depreciation	5,520,372	4,419,977
Increase in deferred Federal income taxes	359,571	418,263
Proceeds from sale of treasury stock under stock option plan	1,369,266	1,789,618
Disposition of property, plant and equipment	2,141,181	2,952,705
Increase in long-term debt	—	1,198,500
Increase in minority interests	1,841,449	1,288,493
Companies acquired	391,437	1,090,301
	32,441,863	32,207,831
Application of Funds:		
Reduction (net) in provision for lease obligations on closed stores	210,698	319,411
Additions to property, plant and equipment	19,363,691	14,439,383
Reduction of long-term debt	730,855	731,654
Purchase of treasury stock — common	—	235
Purchase of treasury stock — preferred	258,640	248,276
Cash dividends on preferred and common stock	9,034,890	7,657,202
Other — net	129,831	129,482
	29,728,605	23,525,643
Net increase in working capital	$ 2,713,258	$ 8,682,188

Accountants' Report

To the Board of Directors
and Shareholders
Melville Shoe Corporation:

We have examined the statement of consolidated financial condition of Melville Shoe Corporation and subsidiary companies as of December 31, 1970 and the related statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to final determination of Federal income tax liability as described in note 3b of notes to consolidated financial statements, the accompanying consolidated financial statements present fairly the financial position of Melville Shoe Corporation and subsidiary companies at December 31, 1970 and the results of their operations and source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

New York, New York
February 25, 1971

PRINTED IN U.S.A.

Directors and Officers

Melville Shoe Corporation
25 West 43rd Street, New York, New York 10036

Directors

Ward Melville, *Chairman*
Chester Baylis, Jr.
Kenneth K. Berland
Leighton H. Coleman
Robert C. Erb
Francis H. Gleason
Robert C. Kuhn
Robert McDonald
Lawrence E. McGourty
Frank Melville
Francis C. Rooney, Jr.
Michael M. Rosenberg
Murray M. Rosenberg
Richard E. West

Seward M. Paterson, *Director Emeritus*

Executive Committee

Murray M. Rosenberg, *Chairman*
Leighton H. Coleman
Francis H. Gleason
Ward Melville
Francis C. Rooney, Jr.

Officers

Ward Melville, *Chairman of the Board*

Francis C. Rooney, Jr., *President and Chief Executive Officer*

Francis H. Gleason, *Senior Vice President*

Kenneth K. Berland, *Financial Vice President and Treasurer*

Vice Presidents

Arthur B. Gold
Robert C. Kuhn
Lawrence E. McGourty
William E. Sperry
Richard E. West

Robert L. Morris, *Controller*

Thomas S. Rothwell, *Secretary*

Gilbert G. Kemnitz, *Assistant Secretary*

Arthur V. Richards, *Assistant Secretary*

Bertha K. Smith, *Assistant Secretary*

John J. Rademaker, *Assistant Treasurer*

The Divisions

Thom McAn Shoe Company
67 Millbrook Street
Worcester, Massachusetts 01606

Lawrence E. McGourty, *President*

Vice Presidents

John F. Riefler, Jr., *Sales Manager*
John P. Gillig, *General Manager, Chess King*
James F. Barry
Jack Chilson
Ferdinand P. Haggerty
Victor P. Mangini
Richard H. McCarthey
William H. Muckley
J. Richard Nedder
John J. Shore
William J. Smith

John J. Rademaker, *Controller*

Arthur V. Richards, *Secretary*

Miles Shoes
Continental Plaza
401 Hackensack Avenue
Hackensack, New Jersey 07601

Roy S. Fogas, *President*

Samuel H. Rosenberg, *First Vice President*

Vice Presidents

John J. Rademaker, *Controller and Secretary*
Kenneth K. Berland
Robert Cook
William Yeager

Meldisco
Continental Plaza
401 Hackensack Avenue
Hackensack, New Jersey 07601

Robert C. Kuhn, *President*

Vice Presidents

Kenneth K. Berland
Jack Entel
Ernest Osorowitz, *Controller and Secretary*

Foxmoor
Campanelli Industrial Park
Campanelli Drive
Brockton, Massachusetts 02401

Stuart G. Moldaw, *President*

Harry Greenberg, *Vice President*

Janette Biggerstaff, *Vice President and Secretary*

Paul R. Friend, *Controller*

Consumer Value Stores
400 Founders Drive
Woonsocket, Rhode Island 02895

Stanley P. Goldstein, *President*

Herbert A. Cohen, *Vice President*

David R. Jonson, *Controller and Secretary*

J. F. McElwain Company
12 Murphy Drive
Nashua, New Hampshire 03060

Francis H. Gleason, *Chairman*

Richard E. West, *President*

Vice Presidents

A. Byron Mansfield, *Controller and Secretary*
J. Richard Burns
John R. DeWitt
Donald W. Erion
Seward M. Paterson
Joseph L. Piotrowski
Frederic E. Shaw
Gordon J. Wilson

Richard O. Wasson, *Assistant Controller*

Blue Ridge Shoe Company
Spring Street and River Road
Wilkesboro, North Carolina 28697

Francis H. Gleason, *Chairman*

Richard E. West, *President*

John R. DeWitt, *Vice President and General Manager*

A. Byron Mansfield, *Vice President, Secretary and Controller*

Michael C. Ahern, *Vice President*

Miller Shoes
385 Central Avenue
Dover, New Hampshire 03820

Richard E. West, *Chairman*

Joseph C. Miller, *President*

Louis M. Johnson, *Vice President*

Donald H. Marchesi, *Controller and Secretary*

Melville Realty Company, Inc.
25 West 43d Street
New York, New York 10036

Howard A. Brown, *President*

Vice Presidents

Thomas S. Rothwell, *Secretary*
Joseph F. Bigos
Francis H. Gleason
Nat Weiner

John J. Rademaker, *Treasurer and Assistant Secretary*

Gilbert G. Kemnitz, *Assistant Treasurer*

Assistant Secretaries

Gilbert G. Kemnitz
Arthur V. Richards
Bertha K. Smith

Counsel:
Davis Polk & Wardwell

Auditors:
Peat, Marwick, Mitchell & Co.

Transfer Agent:
Irving Trust Company,
1 Wall Street, New York, N. Y. 10015

Registrar:
First National City Bank,
111 Wall Street, New York, N. Y. 10015